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BRITAIN'S ECONOMIC OUTLOOK ON EUROPE

I

In an attempt to present the salient features of the British economic outlook, two preliminary notes of caution are required. The first relates to all figures used either for measurement or illustration, especially all monetary figures. Not only are many of these figures liable to changes so rapid and considerable as to be inapplicable by the time this article is published, but all attempts to evaluate them in terms of some standard of 1914 contain a considerable margin of error, chiefly due to alterations in the quality or character of the goods or services submitted to measure. For this reason I shall dispense as far as possible in this general survey with statistical tables, substituting the judgments of economists and business men as on the whole less fallible. The second caution relates to a distinction to be drawn between the immediate economic outlook of this summer of 1922 and the more continuous outlook of any country as affected by the Great War and the Bad Peace.

The immediate situation is described as "bumping along the bottom of a long and deep depression." The cyclical depression, the signs of which were already beginning to appear in 1914, was

postponed for nearly seven years by the war, only falling upon us at the close of 1920. The rapid withdrawal of the inflated expenditure of the government synchronized with the collapse of the Far Eastern and American markets whose long-postponed demand had maintained our economic prosperity for the two years following the armistice and with the failure of financial and industrial restoration in Europe—these were the visible causes of the British depression which has continued from that time to this. Of the twelve million work people insured under the Unemployment Insurance Act 14.4 per cent were unemployed at the end of last April and the Unemployment Exchanges registered an amount of unemployment reaching the figure of two millions, if semi-employment is taken into due account. These figures have been maintained with little alteration during the past twelve months and, taken in conjunction with other evidence, attest the deepest prolonged depression which our people have suffered within the period of reliable records.

When compared with the active production of the pre-war era the output, as indicated by employment, must be down by not less than 20 per cent, and probably, making a minimum allowance for shortening of hours and admitted slackness, by at least 25 per cent. This applies to all the fundamental and staple industries, extractive and manufacturing, as well as to the comfort and luxury trades, while the ranks of the unemployed are reinforced by large contingents from the distributive trades. It may be safely estimated that fully a quarter of the producing power of British capital and labor has been standing idle for the past year. The bookkeeping side of this occurrence is, of course, sensational enough. Wholesale prices had mounted during the war and the opening years of peace to the pinnacle of June, 1920, from which time a rapid and continuous drop has taken place until in June, 1922, the figures stood at only 64 per cent above 1914. The fall of retail prices which began six months later has not yet overtaken the wholesale fall, partly owing to the normal lag, partly owing to strong combination on the part of distributors. With falling prices, aided by unemployment, has come a large and continuous fall in wage rates. This process,

delayed in its beginning, is still proceeding and the *Labour Gazette* for last June recorded a drop of nearly £2,400,000 in the weekly wage-bill of labor since the beginning of the year.

Accepting the Board of Trade index for working-class cost of living, the real wages of skilled and unskilled labor have fallen in general a little below the pre-war standard. Regarded from the standpoint of the employer and capitalist, the immediate situation is far worse. For most manufacturers and merchants the last year and a half has been a most disastrous period. Heavy losses on the year's trade, attributed primarily to rapid shrinkage in the value of all stocks, and aggravated by high wages, reduced hours, lowered productivity, and canceled orders, have been the general rule. In Lancashire and Yorkshire textile firms of the highest reputation have been reduced to temporary insolvency, and only kept from public failure by arrangements with the banks and other large creditors. The same is notoriously true of other great industries. In fact, the general prevalence of the disease has led to a suspension of the enforcement of legal contracts by common consent for fear of the consequences if important firms were allowed to collapse. The main concern of most business men has been to "carry on." The large war and pre-war profits (not taken in taxation) have for the most part evaporated, or at any rate are temporarily submerged. The business world is waiting anxiously rather than confidently for such early return to normality as the play of economic forces, on the one hand, and the eccentricities of statesmen, on the other, may permit.

That there has been so little of a panic feeling in spite of the distressing circumstances is due in no small measure to the confidence and real strength of our banks and finance houses, which even from the standpoint of earnings have not been great sufferers from the present strain. For in bad times finance has its compensations. Each of the three big London discount houses, we are informed, made larger profits in 1921 than in 1920, due largely to a profitable dealing in short-dated government bonds and treasury bills, and to an absence of depreciation in these and other securities. Though all the leading banks (except the Lanca-

shire and Yorkshire) showed a lower profit for 1921 than for 1920, the conservative habit of providing for all imaginable contingencies enabled them to maintain the previous year's distribution of dividends by means of a reduced appropriation to reserves. A conception of the general steadiness of our banking and monetary situation during an exceedingly disturbed year is perhaps best conveyed by the following table, with two notes furnished by the financial editor of the *Manchester Guardian*.¹

	December 23, 1920	December, 1921
Bank notes in circulation	£134,582,000	£126,671,000
Currency notes in circulation	368,231,000	324,429,000
Total circulation	502,813,000	451,100,000
Deduct bank notes held against currency notes	19,450,000	19,450,000
Net circulation	483,363,000	431,650,000
Gold in Bank of England	127,760,000	128,431,000
Gold in currency notes reserve	28,500,000	28,500,000
Total gold	156,260,000	156,931,000
Percentage gold to notes	32.3 per cent	36.4 per cent
Year's decrease in note circulation	11 per cent

Two points may be noted in connection with this table. In the first place, the gold holding which in 1920 had been largely augmented by the concentration of the reserves previously held by the joint-stock banks received only an insignificant increase in 1921. Further, the contraction in the currency notes circulation rendered the maximum fiduciary issue provision quite ineffective. This for 1921 was fixed at £317,555,200, which was the actual fiduciary circulation in 1920. This figure was never approached, and in consequence no further transfer of Bank of England notes to protect the currency notes issue was necessary, the total so held remaining at £19,450,000 throughout the year.

Writing in the early summer of 1922, I find a spreading disposition to believe that the depression is drawing to a close. Apart from the endeavor to induce a favorable psychological atmosphere, there are certain evidences of a slight recovery in a number of our staple trades. More orders are trickling in. The textile, leather, chemical, and some branches of the metal trades are less slack. Wages are everywhere falling, and with reduced costs of production and some abatement of the burden of taxation, a little spirit of adventure is coming back into business

¹ *Manchester Guardian Commercial Supplement*, January 26, 1922.

circles. The soundest reason for anticipating some early recovery is, however, the knowledge that the gluts of raw material and manufactured goods which brought the depression have by this time been nearly dissipated and no longer block the avenues of production. Related to the fact that wholesale prices seem to have touched bottom and that some rises are indicated, this diagnosis of the situation is already beginning to inspire hope and even to stimulate production.

But nobody with any understanding of the new economic situation produced by the war can look forward to a revival of British trade on pre-war lines. The new conditions which affect our foreign trade, our finance, and our internal industrial relations, require careful consideration before we can form any judgment upon Britain's lasting recovery and progress. The old economic determinism apparent in trade cycles is broken by these new conditions. Let us glance first at our new position in foreign trade.

Before the war our huge balance of visible imports over exports was met by "invisible exports" in the shape of shipping, banking, and financial services, and interest on foreign investments, amounting in all to between £300,000,000 and £400,000,-000 per annum. This included interest upon foreign investments estimated to amount to some £4,000,000,000. We did not actually receive the whole of the interest on this sum, but left a substantial part of it to accumulate in re-investment, thus increasing year by year the quantity of our annual claims upon the wealth of the world, a contribution to the development of backward countries in which our growing population, with increasing dependence on foreign sources of supply had a literally vital interest. For Britain produces within her own area a constantly diminishing proportion of her necessary foods and industrial raw materials. Before the war we were importing more than three-quarters of our wheat supply, approximately one-half of our aggregate cereal and meat supply, without reckoning those tropical and semi-tropical foods and materials which furnish so large a part of the ordinary comforts and luxuries of all classes. Our wheat production per head of our population

was far below that of any other European country. France grew five times as much, Italy and Austria nearly three times as much, even Germany (far less dependent upon wheat) 50 per cent more per head. This dependence upon overseas supplies has been increasing rapidly. Within the last three decades of the nineteenth century we nearly doubled our imports of wheat per head and quadrupled our imports of meat.

The trade statistics for 1913 showed three-fourths of our imports consisting of foodstuffs and raw material. But of the remaining quarter, officially classed as "wholly or mainly manufactured," the greater part consisted of tools or other finished or half-finished articles which entered as "costs" into some English branch of industry or commerce. Now there is no ground for believing that the post-war situation has lessened our dependence upon foreign countries for these necessities of life and trade. During the war some appreciable increase of our home agricultural output was obtained by patriotic effort, public bounties, and legislative coercion. But these emergency measures have dropped and left us as dependent as before on overseas supplies. More scientific agriculture and improved land tenure, with brighter village life, may do something to stem the tide of growing dependence, but cannot really cope with the enlarged material needs of our still growing population.

In point of fact the war has left us considerably more dependent upon foreign trade. In using this term I do not distinguish trade with our empire from that with other countries. For that distinction has only a political and scarcely any economic significance. Apart from some quite negligible tariff concessions, the net effect of which is to interfere detrimentally with the most advantageous flow of trade and therefore to increase our difficulties, buying and selling within the cover of the British flag carries the same economic implications as buying and selling outside that flag. Now the damaged financial position in which Britain finds herself requires her to buy more and sell more than before in foreign markets. A large proportion of the "invisible exports" by which before the war we paid for our surplus of visible imports has disappeared. It is probable that in a

normal year considerably more than £200,000,000 was due to us as interest upon our foreign investments, besides large payments for freights and financial services. Though it is not possible to say exactly how much of our foreign holdings has been lost, it cannot, having regard to our public and external indebtedness of some £1,000,000,000 and the disposal of large portions of our American and other securities, be put at less than a sum of between £1,500,000,000 and £2,000,000,000. The debts owed to us by our Allies which might about compensate this loss cannot be regarded as real assets, at any rate so far as our present outlook is concerned. Whether we have lost anything in the value of our shipping services, it is too early to determine, though the temporary shrinkage of trade and of freights has greatly reduced the present yield from this source. Some temporary, and probably some permanent loss has been sustained by London as the banking and financial center of the world's business by the fact that New York stands as the principal free market in gold while the United States has to a considerable extent displaced Britain as the world creditor.

The immediate bearing of these changes upon our commercial situation may be summed up by saying that we are required to find an increase of exported manufactures to the tune of over £100,000,000 a year, in order to pay for the imports we require. There is, of course, a qualifying circumstance. Before the war we invested abroad each year a sum varying from £100,000,000 to £200,000,000. That may be said to have represented our net surplus as a nation from foreign trade. This investment was a provision for our future, going to develop foreign countries for the enlarged markets we should need. If we suspend, or reduce to insignificant proportions, this provision, it is possible that we can still just pay our way. But by doing this we remit the determinant economic influence which as a nation we have hitherto exerted upon the development of backward countries, including those within our own empire. In bad times we shall be put to straits to buy abroad our necessary foods and raw materials without loosing further quantities of our reduced fund of foreign securities.

These plain facts make it evident that, if Britain is to retain, substantially unchanged, her pre-war commercial and investment policy, she must increase to a considerable extent her exports. For not only must she substitute visible for invisible exports to the extent of £100,000,000 a year, or more, but the production of these increased exports will itself involve larger imports of raw materials which, in their turn, must be paid for by exports. Here appear two related problems upon the solution of which the whole issue of our economic future seems to hinge, viz., productivity and foreign markets. As a nation we seem to require to raise considerably the volume of our output of wealth, and to find overseas markets for a large part of this increase. The two problems manifestly interact. We cannot increase the productivity of our industry unless we have reasonable security of marketing the increased product, to a large extent abroad, at profitable prices. On the other hand, this expansion of markets is impracticable except on the assumption of greater productivity. But this interdependence of supply and demand does not invalidate the separate consideration of the two approaches.

In Britain at the present time preachers of productivity abound. Unless production is raised to a higher level than the pre-war level, it is impossible to see how our economic system is to support the new demands of the factors of production and the state. Now our present production, as we estimate, lies at something like 25 per cent below pre-war level. Even were reviving trade to suck up unemployment to the normal limit of good trade, it is generally admitted that shorter hours and slacker work would leave us with a lower than the pre-war output. But the higher rate of interest for new capital involves, as time goes on and brings a larger proportion of capital within this claim, an increased payment of real income for the use of capital.

Labor, on the other hand, is generally unwilling to work unless a larger share of the product is paid to it in wages. This is in a large measure due to the higher standard of consumption to which most classes of workers became habituated during the war. This higher standard was not registered in higher real wage rates, for money wages usually lagged considerably behind the rise of retail prices. Labor statisticians, confining their attention

to the purchasing power of money wage rates, arrive at the strange and false conclusion that "throughout the war practically all workers suffered a decline in standard of living, even counting the advances and bonuses secured."¹ Now, apart from certain foods and other articles short in supply for all classes, and occasionally unattainable, it is notorious that the general standard of almost all workers was higher during the first three years of the war than ever before. This was attested, positively by masses of evidence relating to working-class expenditure, negatively by the fall-off in poor-law and other eleemosynary aids, by reduced child mortality, and other tests. In a word, wage rates were no sufficient measure of standards of living in times when full employment was available for women, children, and old persons, and when earnings were supplemented largely by soldiers' allowances, billeting, and other supplementary sources. The better feeding, clothing, and amusement fund furnished to most of the civilian population under these conditions, lasted long enough to produce a new standard of requirements. The psychology of this situation, coupled with the nervous reaction from war experience, is mainly responsible for the new unrest attending the efforts of employers during the past year to effect reductions both of money and of real wages. This is not the place to enter on a discussion of the new labor problem thus presented. I mention it only in its bearing on the problem of productivity, to indicate that labor, like new capital, appears to ask for a larger share out of a reduced product.

Finally, there comes the enlarged demand of the government in the shape of taxation. The estimates presented for the fiscal year beginning April 1, 1922, showed a reduction in expenditure, as compared with the previous year, of about £200,000,000, obtained as the result of a clamorous demand for public economy. They stood as follows:

ESTIMATES FOR 1922-23

Ordinary expenditure ..	£823,846,000	Ordinary receipts.....	£820,775,000
Special expenditure ..	61,223,000	Special receipts.....	90,000,000
Contingencies	25,000,000		
			£910,069,000
			£910,775,000

¹ *Prices, Wages, and Profits*, by the Labour Research Department, p. 39.

Of the £910,000,000 revenue, £181,000,000 is described as non-tax revenue, a half of which is the estimated yield from sale of remaining war stores, three-fifths of the remainder being the proceeds of the postal, telegraph, and telephone service, heavily weighted with high charges which economically must rank as taxes. The avowed tax revenue for the year is £729,000,000. To test the pressure of taxation we may compare this with the £160,000,000 raised in 1913-14. Taking this pre-war revenue at a premium of about 80 per cent (to meet the depreciation of money today) we get a pre-war tax revenue of £290,000,000, comparable in terms of real wealth with the £729,000,000 for this year. A further comparison of items shows that the main stress at present falls upon the income tax, inclusive of super-tax, with customs and excise. The estimate of income tax for 1913 was £50,000,000 (£90,000,000 in present money values), that for the current year is £329,000,000. Customs and excise for 1913 stood at £74,000,000 (£133,000,000, at present values), compared with £273,000,000 for the current year.

In other words, while taxation in terms of real wealth taken from taxpayers is about two and one-half times as great as in 1913, the estimated yield of income tax is three and one-half times as great, the yield of customs and excise a little more than twice. If we bear in mind that these increased amounts of wealth are claimed for the state from an aggregate national income reckoned as less by some 25 per cent than the 1913 income, we realize that incentives to industry and productivity may be seriously disturbed. But in evaluating this disturbance we must not exaggerate the evil by assuming that the whole of this enlarged tax revenue is taken away from industrial uses, to be consumed by governmental services. Out of the total revenue of £911,000,000 for this year, no less than £335,000,000 is applied to service of the national debt, the whole of this (with the exception of the £25,000,000 for interest to America) going into the pockets of British bondholders. In addition to this, the sum of £90,000,000 goes, as war pensions, back into the year's income of British citizens and taxpayers. The net real reduction of private incomes thus imposed by this taxation is £511,000,000.

This consideration does not, of course, satisfy the taxpayer, who is not consoled for having to pay a five shillings income tax by the reflection that some two shillings come back to him, or to some fellow-citizen, in interest on war loan or as pension. But when the tax burden is cited as crippling trade and stopping the recovery of industry, the fact that so large a sum is simply transferred from the taxpayer to the bondholder and so far involves no diminution of the amount available for saving or spending, is highly relevant. But, when full allowance for this large charge is made, it remains true that the state takes a considerably greater share of the real income for its services than was the case before the war. The Supply Services which then cost £158,000,000 now cost £547,000,000, an enormous advance, even if the former figure be raised 80 per cent for modern values, and the £90,000,000 of pensions, included in the £547,000,000, be deducted. How far this higher expenditure on public education, health, and other social services may be conducive now or presently to increased economic productivity, it is not possible to estimate, though this consideration should not be ignored.

This brief analysis of the new claims of Capital, Labor, and the State, upon the product, is directed to enforce the growing need of higher productivity, i.e., of a real income adequate to meet these combined demands. Our present income, or even a return to our pre-war income, is manifestly insufficient. The failure to realize this fact, especially on the part of Labor, is a leading factor in the impotent psychology of industrial unrest from which the country is suffering. In order to meet the joint demand of Capital, Labor, and the State, or otherwise to maintain our growing population in a state of civilized living and contentment, our production must be largely increased. This is not primarily a matter of access to larger natural resources, or more labor power, or the discovery of new processes. It is a matter of utilizing more adequately the technology and the administrative knowledge already available. Even the hasty improvisation of our war economy disclosed the enormous amount of waste in the ordinary operation of our economic system. In the application of the physical sciences to industry, in

the psychology of business organization, in the economics of standardization and of mass production, our business men have, perhaps, more to learn than those of any other advanced industrial nation. For our long lead in many branches of industry and commerce has kept us easy-going and unreceptive of new knowledge. If all, or the bulk, of the firms engaged in any industry could be brought up to something like the level of the best-equipped and organized firm, our productivity would be enormously enhanced. This is largely a question of access to information and of enterprise. Trade associations, chambers of commerce, industrial councils, trade boards, can all contribute to this process of enlightenment.

The new recognition that more brains and energy are needed in order to meet the requirements of the post-war situation is gradually spreading among our business classes. The pre-war boom and the period of war profiteering, in which big money was made easily, exercised a demoralizing effect on large numbers of business men. A more serious and a more "scientific" interest in business is beginning to make way. As a part of this reorientation of the business mind comes a new attitude toward the claims of Labor. The first tendency of our business men has been to blame the low productivity of industry upon the slackness or "ca' canny" of the workers. This sentiment is today more prevalent than ever among the majority of the employing and professional classes and is sustained by a large body of undeniable truth. The needed rise of productivity is unattainable unless the mass of the organized workers will recognize that it is to their interest to work better and harder. We need not dispute, for it is impossible to decide, how far the inefficiency or slackness of employers, how far of employees, is responsible for the present low productivity. More and better-directed energy is required from both.

But, whereas a growing number of employers recognize this truth, it makes little way at present in labor circles. It is well to understand why. There are two chief obstacles to its acceptance. The first is the common belief that there is plenty of wealth produced to enable everybody to live comfortably, if it

were properly distributed, and that higher productivity of labor would be absorbed in higher profits. The second is the fear that working harder and producing more means fewer men employed upon a job, or the completion of a contract earlier than would otherwise happen, with the result of an ensuing period of unemployment. The first consideration is really vital. For it signifies that better production is inseparable from better distribution of wealth. A permanent incentive to keep down productivity has been the suspicion of profiteering. That suspicion, like most, feeds on secrecy and unreason. The ordinary worker thinks he is exploited by employers. He is not a socialist, a bolshevist, or any sort of "ist," but he is by nature a bit of a grumbler who objects to giving more than he thinks he gets. He sees his employer living in a large, expensive way, and hears of large-sounding sums distributed as profits or dividends. He knows there is a wealthy leisured class living in luxury "upon his labor." Labor leaders and socialist orators give a little shape and added feeling to this normally vague discontent. It is not dispelled by able and elaborate disquisitions by Professor Bowley or Sir Josiah Stump, who prove quite convincingly that if every family in England were put upon a rationed income of £250 a year, the whole available surplus income from British industry, after this were done, would not add more than some five shillings to the weekly income of each family.

That this is the substantial truth there can be no doubt. But the illusion of the amount of surplus wealth represented by the showy extravagance of a wealthy class, forming perhaps 2 per cent of the nation, is not dispelled by reasonable statistical analysis, which, were it read, would not convince, in the form in which it is presented. If honest and intelligent labor leaders would indorse and press home the issue of an insufficient product, something substantial might be done to remove this obstacle to higher productivity. But it would not suffice, unless accompanied by schemes of improved distribution. For, exaggerated as the grievance is in its dimensions, it remains true that large bodies of unearned wealth, unnecessary as incentives to effort, and socially detrimental in their expenditure, are drawn by small

privileged classes. The economic system does not work with convincing equity in the apportionment of the product, and this inequity is a contributory cause of low productivity of labor.

It is the recognition of this that gives point to the new experiments which are on foot for reconciling Capital and Labor in the several businesses and industries by schemes of representative control and by policies of profit-sharing, bonuses, or co-partnership. Only a minority of employers, however, as yet recognize clearly that the age of autocratic government is passing from industry as from politics, and that due representation of all interests is taking its place. Works committees, trade boards, conciliation boards, industrial councils, are experiments in this direction, and a growing number of firms are willing to have workmen on their directorates. The present difficulty, illustrated by recent troubles in the engineering trade, consists in differentiating between the issues of control in which Labor has a reasonable claim to a determinant voice, and those which, like questions of finance and marketing, must rest with the management. This difficulty can only be overcome by a policy which identifies the lasting interests of the employees with those of the employer, by a process of incorporating the former in the business as definite participants in its success or failure. Participation in profits, however, is one but not the only method of such incorporation. There are many businesses whose mechanical or large-scale operation does not easily lend itself to profit-sharing as an incentive. Organized workers often look by preference to a policy of standard wages and hours, with security of tenure and provision for unemployment.

It is, I think, this last issue that is most important in relation to our primary problem of productivity. Workers will not put forth their best powers of work unless their continuous livelihood is secured. Leakage between jobs and seasonal slackness are notorious causes of slow work in the building and many other trades. A trade depression, like the present, is a liberal education in "ca' canny," for slackness of orders keeps before large bodies of men the constant fear of dismissal when the present job is ended. It is useless to argue that, in the long run, such

slackening means less employment. The evil of the present system is that most men cannot afford to take long views. It is for this reason that schemes for throwing upon the several industries (together with some public contribution) the responsibility of making adequate provisions both for short and long spells of unemployment, are recognized as a first step toward higher productivity.

II

But while increased national productivity is essential to our maintenance and progress, another condition equally essential looms very large on our horizon. It is the expansion of the market. The theoretic contention that (apart from misapplication of productive power) there can be no such thing as overproduction, cuts no ice either among business men or workers. For experience teaches them that industrial machinery is always tending to produce staple commodities at a faster rate than the market will take them off. This normal tendency toward over-production, attested by the cyclical depressions which are its inevitable consequence, is the chronic cause of slacking both on the part of capital and of labor. For "regulation of output" for the maintenance of "reasonable prices," which is the central fact of the policy of trusts and combines, is in substance identical with labor's "ca' canny." This normal trouble of a restricted market has, of course, an important bearing upon Britain's present economic outlook on the world. For the present depression shows this normal trouble aggravated by the financial and commercial dislocation of the world-market, which has been the aftermath of the Great War. Britain, as we see, is more vitally concerned with securing large, free, foreign markets than any other country. Our interest in the peace, safety, and economic recovery of the world is unique. Had not our statesmen been to so large an extent "economic illiterates," they would have thrown their whole weight into the reconstruction at the earliest possible minute of the broken industrial, commercial, and financial machinery of Europe as soon as the war was ended.

Economic statecraft would have avoided at least three fatal blunders. The first is the economic-political dismemberment of

Austro-Hungary which left her a rotting carcass in the European system. Second comes the boycott of Russia, accompanied for two years by a squandering of vast sums of money and men by the Western Powers in the work of further injuring the economic resources of that ill-governed and impoverished country. Third comes the fastening upon Germany of an immeasurable load of reparations, instead of a fixed, practicable sum. There are, of course, other troubles of a similar nature embodied in the Peace Treaties and in the post-war policy, the larger bearing of which upon our economic situation has gradually become evident. Britain requires the peace and economic recovery of Europe because only in this condition is it possible for her to obtain the expansion of markets which renders her higher productivity available. She must increase her foreign markets, and this increase is impossible unless Europe obtains a higher and reliable purchasing power.

This statement, as it stands, is liable to some misunderstanding. It may seem to suggest that Britain must sell her increased product exclusively, or mainly, in Europe. This, of course, is by no means the case. A portion of the increased productivity of which our industry is capable, should be met by the expansion of our internal market. A higher standard of comfort for the mass of our working population is, indeed, as we recognize, one condition for the achievement of higher productivity. A larger and more regular consumption of staple commodities would be a strong bulwark against trade depression in our standard conditions. But this is vitally associated with an enlargement of external markets both for buying and for selling.

Here it may be well to put in evidence some statistics measuring the importance of the slump of foreign trade in its bearing upon our economic situation. The best measure of the relative importance of our export to our home trade is given in the *Census of Production* (1907) where 37 per cent of the total industrial product of this nation is assigned to export trade, 38 per cent of the product of our mines and quarries, and 31 per cent of our "aggregate output." Thus we see that virtually one-third of the work done in this country on production of material wealth has been for export trade. Now of our total export trade in 1913,

amounting in value to £525,000,000, no less than £205,000,000, or two-fifths, was European. Germany was by far our largest European customer, our largest foreign customer save India. Her purchases in 1913, if allowance be made for an unascertained part of the trade ascribed to Holland and Belgium, must have amounted to about one-quarter of our European market. If we take into account the 1913 trade with Austro-Hungary, Turkey, Bulgaria, and Russia, that group of countries accounts for about one-third of our whole European trade. Now the failure of the industrial recovery of Europe, especially of Russia, and the artificially stimulated export trade of Germany have gravely injured our export market. But though that injury proceeds from European conditions, its area is by no means confined to Europe. The indirect damage done to our export trade with non-European countries, owing to the losses of European markets sustained by those countries, is at least as grave. The collapse of the demand for Asiatic, African, and other tropical and semi-tropical products on the part of European peoples has brought a large shrinkage in their purchase of our manufactures. Such are the familiar phenomena of roundabout trade, so signally ignored by political peacemakers.

So much for the export side of our national accounts. But, as we cannot sell abroad as much as we desire, we cannot afford to buy abroad. And here, as we have seen, is the crux of our situation. We must buy abroad in order to exist, therefore we must sell. No other great country feels the same pressure of necessity. How grave this pressure is appears from our balance-sheet of last year, and our prospective balance-sheet for this.

If our foreign trade for 1921 is revalued on the basis of the prices prevailing in 1913, the comparison works out as follows:

VALUES ON BASIS OF 1913 PRICES
(ooo's omitted)

	1913	1921
Imports.....	£768,735	£570,912
Exports (British goods).....	525,254	261,647
Exports (Foreign and Colonial).....	100,567	85,612

The excess of imports over exports here disclosed is a new and disconcerting feature in our economic outlook. For unless we can substantially reduce that excess by expansion of our visible and invisible exports, we are in a thoroughly unsound condition. The visible balance was much worse for 1920 than for 1921, but it was redressed by the inflated shipping earnings of that year. The following is an approximate trade balance for 1921 (given in millions of pounds), in comparison with 1920 and 1913.

	1921	1920	1913
Exports of merchandise.....	810	1,557	635
Shipping earnings.....	70	340	100
Finance and insurance earnings.....	30	50	30
Income from investments.....	120	120	200
Total.....	1,030	2,067	965
Deduct imports.....	1,087	1,933	769
Final balance.....	-57	+134	+196

Though the returns of recent months show some improvement, the need of expanding foreign markets, and an accompanying expansion of our shipping and financial profits, are of permanent importance in their bearing on our policy of economic and financial reconstruction. Economists, financiers, and enlightened business men in Britain are virtually unanimous as to the essentials of that policy, though there are differences upon methods of attainment.

We see Europe strangled in a coil of troubles, and hampering world-recovery by its helplessness. Almost every nation suffers from inflation, instability of exchanges, extravagance in arms and doles, failure to balance budgets, crushing taxation, tariffs and embargoes, public indebtedness, and reparations. These interact so as to produce the appearance of a vicious circle, a conception which is apt to exercise a paralyzing influence upon the will of politicians. It seems politically impossible for a country in the case of Austria or Poland to stop inflation. It seems idle to call on Germany, or even France, to balance her budget on the existing basis of obligations. Reduction of armaments in so dangerous a Europe seems impracticable to Continental powers. Tariffs appear imperative in order to stop foreign goods from

low exchange countries from flooding the markets of high exchange countries, and so the natural process of stabilizing exchanges is made impossible.

This entanglement, however, is not an endless chain. There is a quite definite point of entrance, a prime condition for the success of the general financial policy, adumbrated, first at Brussels two years ago, and lately at Genoa. We can only unravel the coil by seizing firm hold of the reparation end.

The priority claim for the reparation settlement is not merely one of political emergency, critical as that may be, but one of economic rationale. Let the Allies once agree upon a drastic reduction of the terms of the London ultimatum, accompanied by a remission of British claims for pensions and allowances. Let them recognize that at present Germany has not, and cannot attain by any improvement of her taxing system or cancellation of subsidies, any considerable export surplus out of which to make a large payment in gold marks. Let them realize that the provision of material for the repair of the devastated areas, with arrangements for some ascending scale of monetary payments to begin as soon as Germany attains a genuine trade surplus, is the only method consistent with and contributory to the restoration of Europe, and the recovery of the nations stricken with famine or languishing in trade depression.

How will the healing influence of a sound settlement of reparations work upon the other maladies? It will operate in some way as this. A total payment, reduced to something like the Keynes figure, with a moratorium for the monetary portion, would greatly facilitate the process of real restoration in the devastated areas, because on those conditions it would be feasible to float upon the money markets of the world those reparation bonds handed by Germany to the Allied governments which in present circumstances, can have no market value. The total cancellation of the unpaid C Bonds and the easing of the terms for the payment of the A and B series are essential to enable France to carry out speedily and advantageously the actual work of repair. In other words, the real value and availability of a greatly reduced sum for reparations would be far larger than

belong to figures known to be inflated and impossible. The unreality of her present hopes, and of the false expectations built on them, cannot be to the real advantage of France, while it visibly aggravates the insecurity of the whole European situation.

The next beneficent reaction would be the slowing-down of the artificially stimulated flow of German export goods into all the markets where our goods would normally compete with theirs. This, in itself, would do something for the recovery of our export trade, especially when the stoppage of further German inflation, with its accompanying reduction of real wages, is taken into account. For so long as Germany is forced to find these large sums in gold marks, she must go on meeting her internal bills by an ever cheapening money, in order to drive down the costs of labor to a point enabling her to undersell foreigners in their own and neutral markets. Only by thus enabling Germany to stop inflation can she be brought to balance her budget, conserve her sound foreign money for the supply of her own material needs, and cease the costly policy of subsidies by which she has broken the full shock of inflation upon the weaker classes of the nation. The more pacific atmosphere produced by a reparation settlement which won the reasonable acceptance of Germany should immediately react in solid savings upon armaments, in which France and her Continental satellites would be chief beneficiaries. The withdrawal of forces from the occupied areas, a corollary of this new policy, would leave a larger portion of the payments made by Germany available for the real work of restoration, and French statesmen might be enabled to meet their internal obligations without undue recourse to borrowing.

The next reaction of the reparation settlement would be the establishment of freer commerce. This would come through the removal or reduction of the tariffs and export embargoes which every state has thrown up to safeguard its industries against the surging tide of uncontrolled trade. Just in proportion as these barriers are thrown down and trade flows freely from one country to another, can a parity of price levels be attained. In no other way is that stabilization of the exchanges which we need as the basis of confidence in business life attainable. Only thus can we, or any other country, hope to obtain any substantial

relaxation of the burdens of taxation. For only thus can the burden be lightened at both ends by the sensible reduction of expenditure on armaments. Trade once stimulated, rising prices will be reflected in higher money incomes and an automatic lightening of the great fixed charges for interest and pensions which constitute so big a portion of our annual expenditure.

Cut down the indemnity, cancel inter-Allied indebtedness, stop inflation, enable states to pay their way, secure stability of external payments, reduce governmental waste, and ease taxation. By these means shall we secure a body of conditions favorable to a revival of trade which shall suck up unemployment in every country. Moreover, we enable peoples and their governments to concert in common the further plans needed for securing the peace and progress of a world taught at last, and by terrible experience, to realize its unity. For only with the beginnings of economic safety and revival in Western Europe shall we get the frame of mind and the external resources necessary to evoke that larger policy of co-operative credit needed to meet the case of stricken countries such as Austria and Russia, too feeble to respond to the normal economic stimuli. Only by an emergency policy of international credits, furnished on a larger scale than hitherto contemplated, can these sick countries be restored to the world which their sickness must otherwise continue to hamper and perplex.

This brings me to the dawning recognition of the necessity of an international understanding and co-operation in credits and currency which is perhaps the most important outcome of post-war economic experience. Had it been politically practicable at the Peace to endow a finance committee of a completed League of Nations with the emergency power of rationing some international fund of credit (a continuation and expansion of the allied system in the war) during a period of restoration, the worst of our troubles might have been averted.

Slowly and piecemeal Europe has been struggling toward the erection of some such system. In Britain the beginnings came with our trade depression, taking shape chiefly in governmental aids and guaranties for our export trade with countries whose purchasing power was feeble and unreliable. The Over-

seas Trade Acts of 1920 and 1921 empowered the Board of Trade to make advances to British firms exporting goods to certain war-stricken countries, and to guarantee a large share of any loss incurred in such trade. Comparatively little trade was done under the conditions of these Acts, and in 1921 a further amendment of the policy was incorporated in the Trade Facilities Act, the chief feature of which was "the granting of credits and the giving of guaranties in respect of export transactions, other than the sale of munitions of war, between the United Kingdom and any other country whatsoever" and extending the time limit for such credits to 1927. The state was to guarantee 100 per cent of the invoiced value of exported goods where the period of credits did not exceed twelve months, the state's ultimate liability remaining fixed, as in the earlier Acts, at $42\frac{1}{2}$ per cent. A certain amount of trade has been done under these conditions, though Russia was formally excluded from the application of the Act. The International Credits Organisation, set up under the Ter Meulen scheme with the approval of the League of Nations, for financing trade with impoverished nations, has so far proved sterile, chiefly because it required from the governments of the borrowers guaranties which they could not give. Another scheme outlined by Sir Edward Mountain (chairman of a large insurance company) proposed a syndicate of banks and insurance companies for the finance of export trade, with a government guaranty against half the losses.

But none of these schemes have faced effectively the real difficulty that "before the exchange risk can become an insurable risk on ordinary business lines, the distressed countries must cease to be distressed," nor is it clear that any of the barter schemes, to which resort is sometimes possible, can go far to redeem the situation. These small, fumbling experiments have made it evident that a larger, bolder, and more fully international remedy is needed, that Russia must be brought within its scope as a chief subject of its operations, and that all the great powers must participate in a task which is not merely one of restoration but of development.

Moreover, the notion that any such work can be left entirely to private enterprise is unthinkable. Though the active work of

financing such operations can best be undertaken by banking and financial groups of the several nations in co-operation, that co-operation must quite evidently extend to their governments whose several and concerted action will be needed at the outset to secure sufficient confidence in the individual traders who are required to deliver goods for payment in terms of some new sort of paper. For though governments can hardly be expected to add to their existing financial embarrassments any large financial undertakings involving current public expenditure, their early co-operation is urgently required in order to secure the stabilization of exchanges and of prices essential to secure from bankers and investors the loans needed to set the nations on their economic feet.

A general consensus of economic opinion here supports the resolutions of the Financial Commission of the Genoa Conference, which are quite explicit upon the course it is desirable to take. Stability of currency is the first requisite of economic reconstruction. That stability involves the adoption of a common standard of European currencies. The only standard possible at present for general adoption is gold. European governments should formally accept that standard and without delay fix the gold value of their several monetary units, according to their several conditions, either adopting the old gold parity or a new one approximating to the exchange value of the monetary unit at the time of adoption. But the successful maintenance of such a gold standard must turn upon effective international arrangements in which the co-operation of governments and their central banks is essential. For it will be necessary to "centralize and co-ordinate the demand for gold, and so to avoid those wide fluctuations in the purchasing power of gold which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves. The Convention should embody some means of economizing the use of gold by maintaining reserves in the form of foreign balances, such, for example, as the gold exchange standard, or an international clearing system." With the restoration of a free market for gold, and comparative stability of prices, productivity would be restored and commerce would flow with its pre-war confidence.

Suppose that the preliminary difficulties of getting the weak exchange nations to agree to the immediate adjustment of their damaged currency to a gold standard, and of getting all the strong nations (including the United States) to come into an arrangement involving the establishment of an international money policy with an internationalization of the final gold reserve, were possible, a certain considerable advance would have been made toward financial and economic restoration. It should be possible to get the economic advisers of the various governments to recognize the urgent utility of such an international plan.

But it would be foolish for us to shirk the issue of American co-operation. The Genoa Commission, indeed, expressly states that "no scheme for stabilizing the purchasing power of the monetary unit can be made effective without co-operation of policy between Europe and the United States." Now English economists would, I think, admit that the immediate interests of America are less urgently involved in this project than those of this country or of other European countries. This admission, of course, applies to the whole European imbroglio, political as well as economic. But they would urge that, though America is better able to stand out and has less *immediately* to gain by coming in, the new economic position of America and in particular the growth of her foreign trade should furnish sufficient grounds for participation. For a refusal to assist directly in the financial recovery of Europe, and the hugging of an economic isolation, must become more and more embarrassing as time goes on. The direct financial stakes of America in Europe, considerable though they are, are small as compared with those which under the normal play of business motives would be profitably established during the years to come. While, therefore, the inducements to America to come into an international corporation are less potent than in our own case, they should be adequate for Americans who take a long view of their economic destiny.

There is one other important matter touched upon by the Genoa Commission deserving of attention. If "undue fluctuations in the purchasing power of gold" are to be prevented, i.e., if stability of price level be desirable, there must be some agreed

policy of regulating credit. Here, of course, we touch the most sensitive organ of finance. If finance were a rigid mechanism with a quantity of gold as the general governor of action, the matter might be simply solved by some agreement on a proportion between gold and credit, operated automatically by discount rates. But though this appears to be the accepted doctrine of conservative bankers and economists, it cannot seriously be regarded as workable. Could, or would, any two central banks agree on the desirable proportion of credit to gold in their respective countries, when established banking policies differ so materially? Or, taking an even broader point, can it seriously be maintained that the same proportion of credit to gold should be maintained on the up-grade as on the down-grade of a cyclical fluctuation of trade? Granting that a more carefully concerted credit policy could cut out the peak of a cyclical fluctuation by stopping rises of prices before they reached the high level which unrestricted credit renders possible, and could, by easier money, do something for depressed trade, could such a policy be operated successfully without assigning large discretion to some representative committee empowered to take into consideration the special circumstances of world-trade at the time when action is required?

A purely mechanical apparatus for correlating credit with gold and securing co-operation by the separate action of national banks hardly seems effective. A closer international government of finance would seem necessary, in order to reconcile wholesome elasticity with reasonable control. Toward such an international organ no doubt the world is moving. But its present adoption would seem to presuppose a fuller apprehension of the economic unity of the world, and of the consequent inter-penetration of national economic interests, than yet obtains in any large section of the business classes of any nation. Some measure of agreed co-operation, however, should be feasible, and the proposed association of central banks upon the one hand, and the International Corporation for emergency credits on the other, rank as serious experiments toward such co-operation.

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